



City of Costa Mesa

SALES & USE TAX TRENDS

MAY 24, 2011



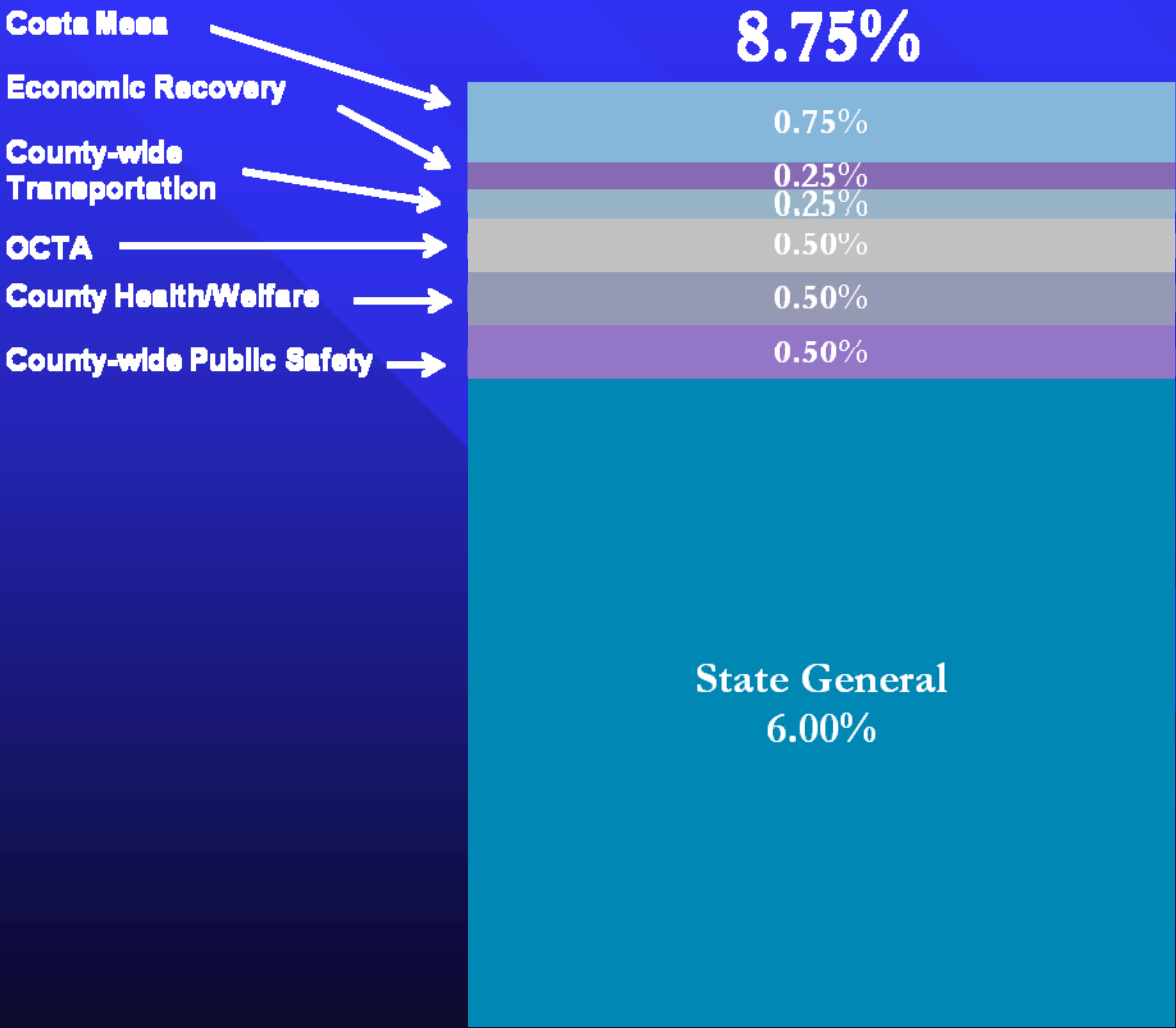
Sales and Use Tax Overview

- Only on purchase or lease of tangible personal property
- Real property and services excluded
- Charged only when sold to end user
- Significant exemptions (over \$11 billion annually)
- 80% of revenue generated by 5% of businesses

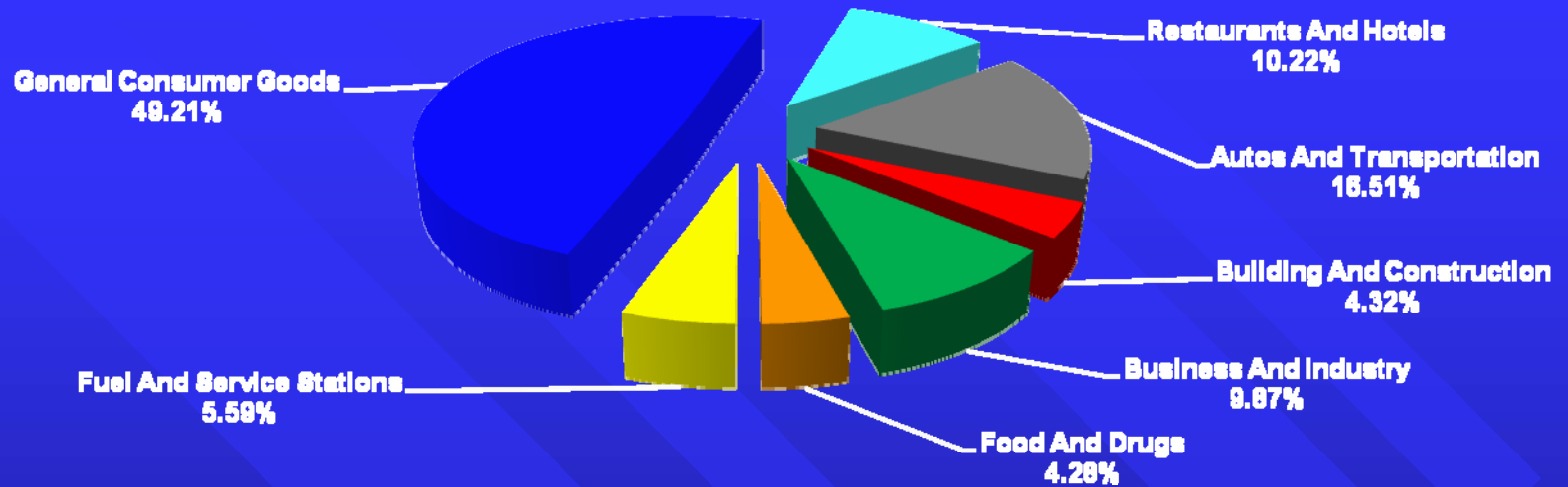
Allocated to Jurisdiction Where:

- Sales office or order desk located
- Where inventory maintained
- Tax on equipment that is leased, purchased from out of state, affixed to buyer's property or where seller has no permit is distributed via County and State allocation pools

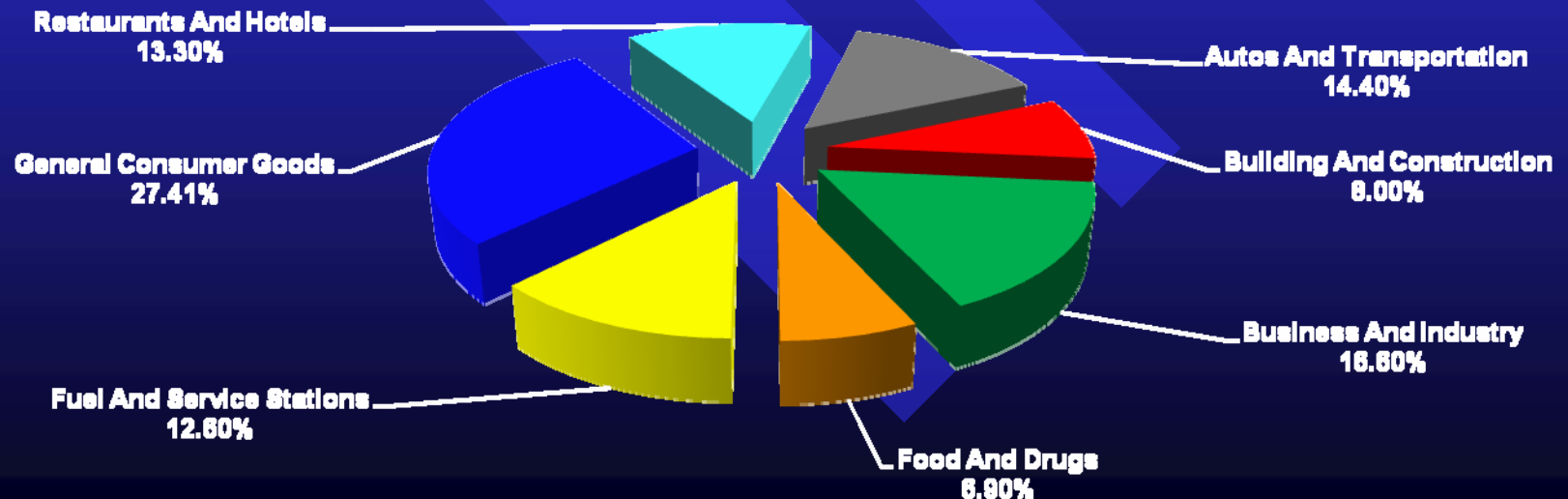
Costa Mesa Sales and Use Tax Rate



City of Costa Mesa

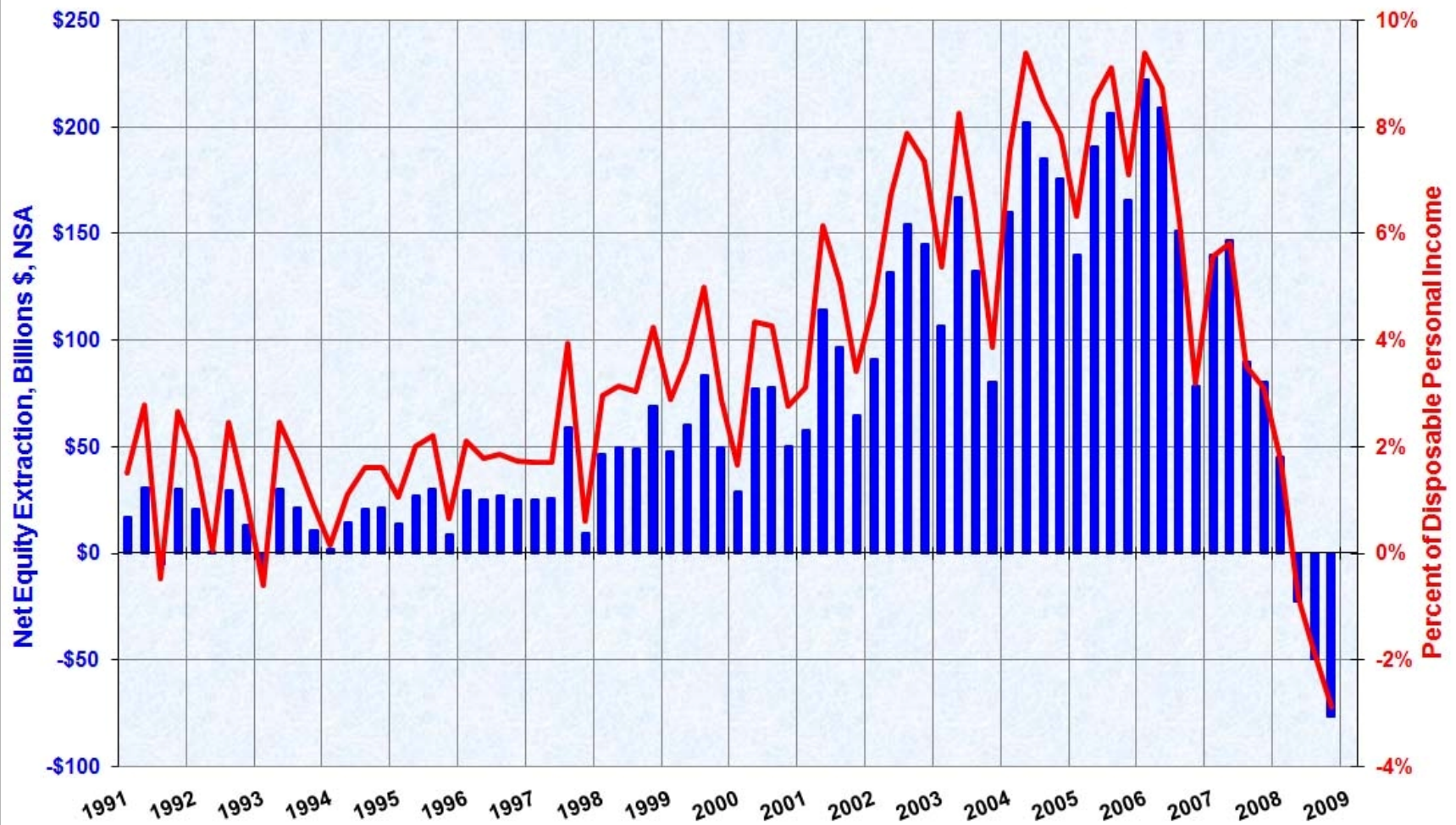


HdL Client Database Statewide Totals



MEW, Billions of Dollars, Quarterly, Kennedy-Greenspan

■ Net equity extraction — As a percent of disposable income

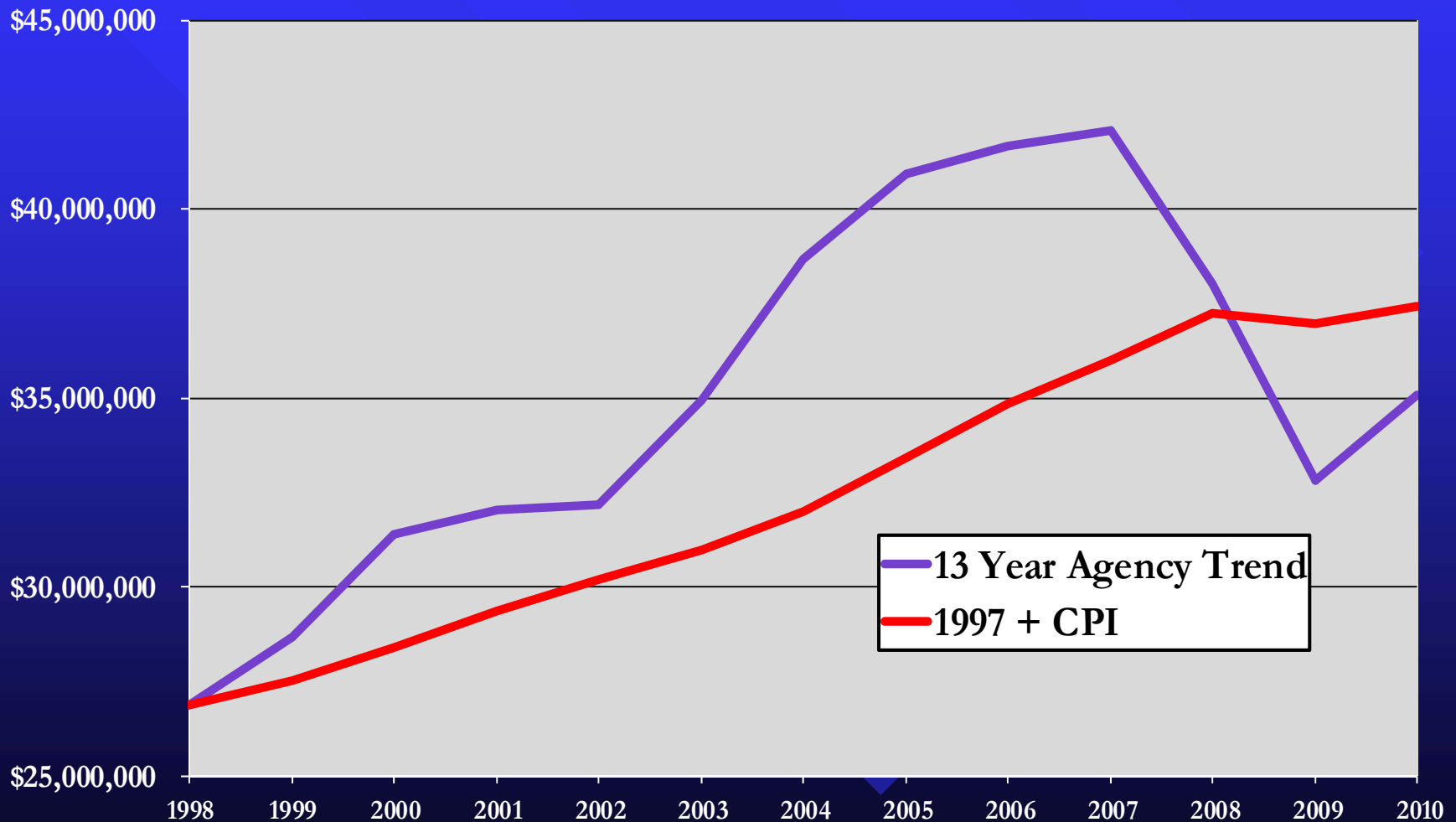


<http://www.calculatedriskblog.com/>



COSTA MESA – ALL AGENCIES

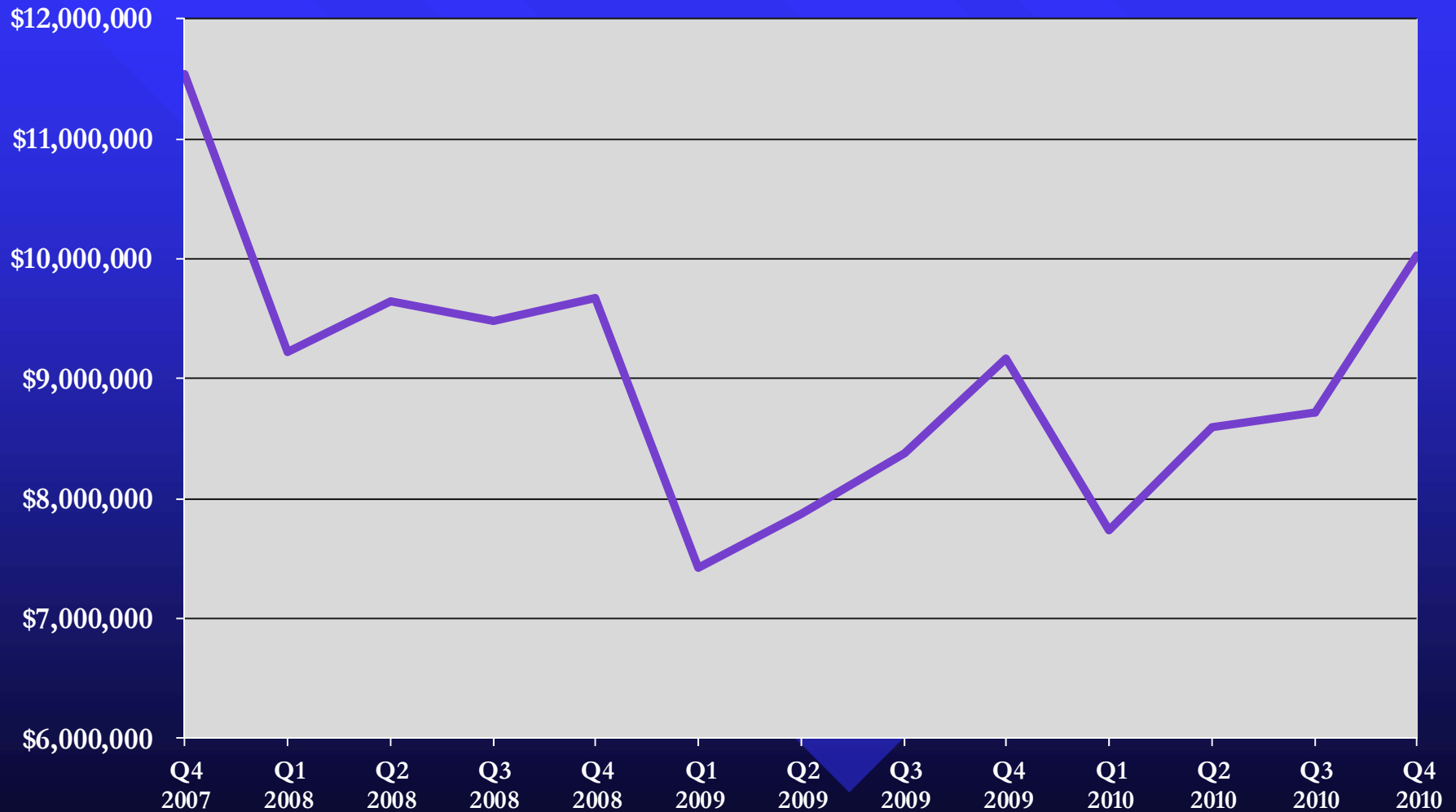
13 YEAR TREND vs. 1998 SALES TAX x CPI





CITY OF COSTA MESA

13 QUARTER TREND





Sales and Use Tax Forecast

www.hdlcompanies.com

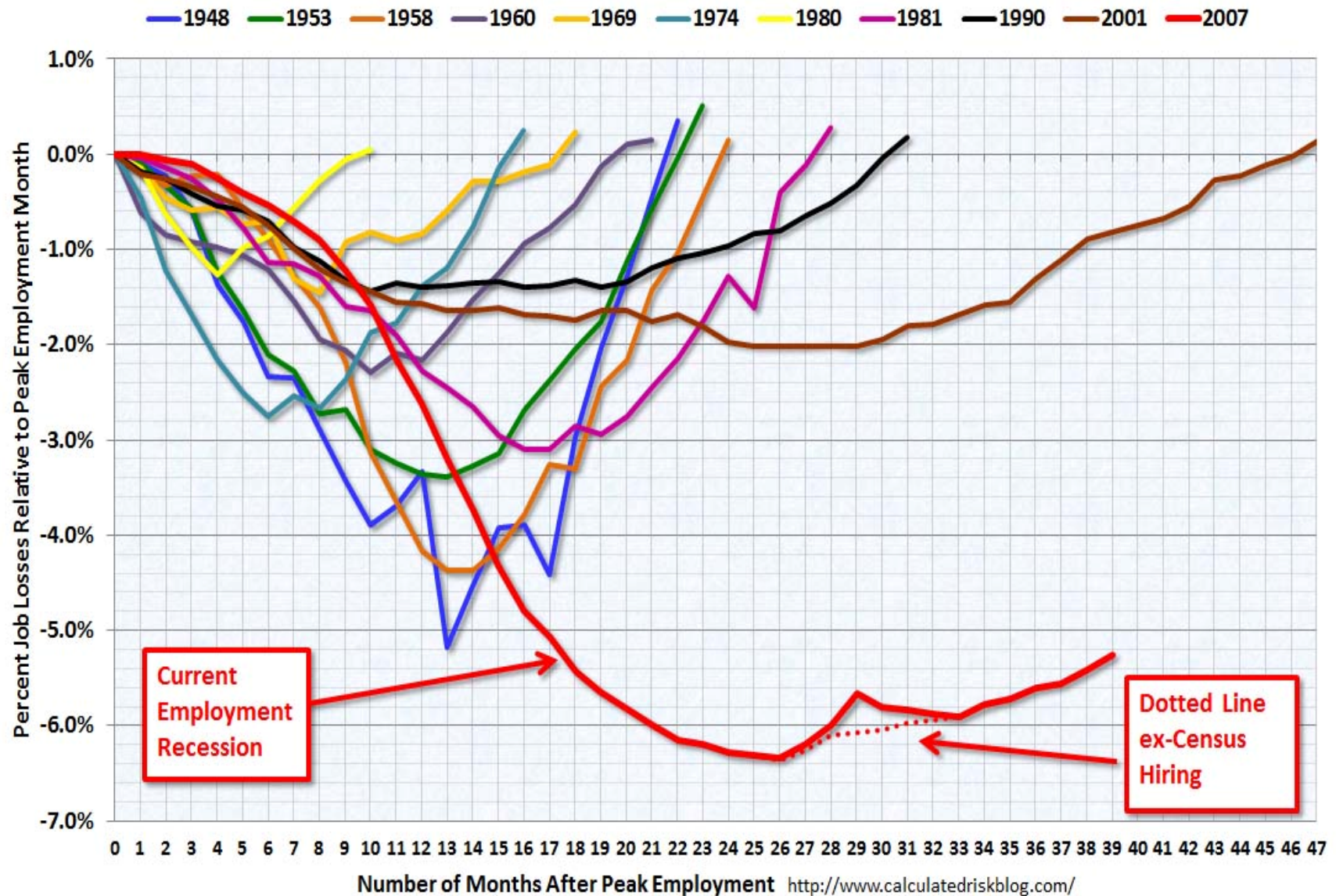
| | Costa Mesa Percent Change | | | |
|-------------------------|------------------------------|------------------|--|--|
| | <u>2008/2009</u> | <u>2009/2010</u> | <u>Projected Fiscal Year 2010/2011</u> | <u>Projected Fiscal Year 2011/2012</u> |
| Autos & Transportation | -10.5% | -10.9% | +10.0% | +8.0% |
| Building & Construction | -19.6% | -21.5% | +1.4% | 0.0% |
| Business & Industry | -9.9% | -12.7% | +9.4% | +5.0% |
| Food & Drugs | -0.5% | -3.2% | +1.2% | 0.0% |
| Fuel & Service Stations | +1.6% | -14.7% | +21.8% | +16.1% |
| General Consumer Goods | -13.6% | -6.2% | +6.4% | +4.5% |
| Restaurants & Hotels | -8.5% | -7.6% | +4.5% | +3.0% |
| Overall | -11.4% | -9.0% | +6.6% | +4.3% |

Impact of State Budget Crisis?

- Seventh Largest World Economy
- 13% of National Domestic Product
- \$25.4 Billion in Hole and Growing (Debt Service now 8% of budget spending)
- Out of Borrowing and Accounting Gimmicks
- Federal Stimulus and local Program funding Ends

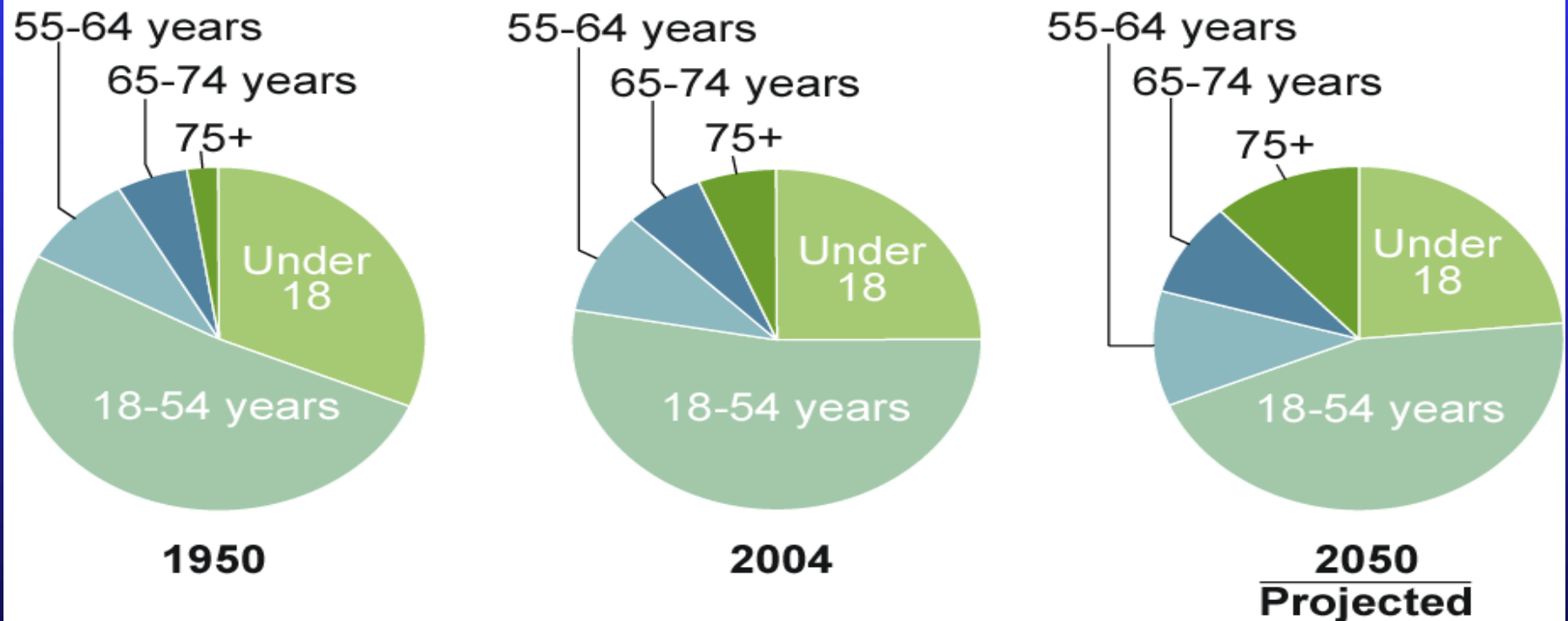


Percent Job Losses in Post WWII Recessions



Changing Population

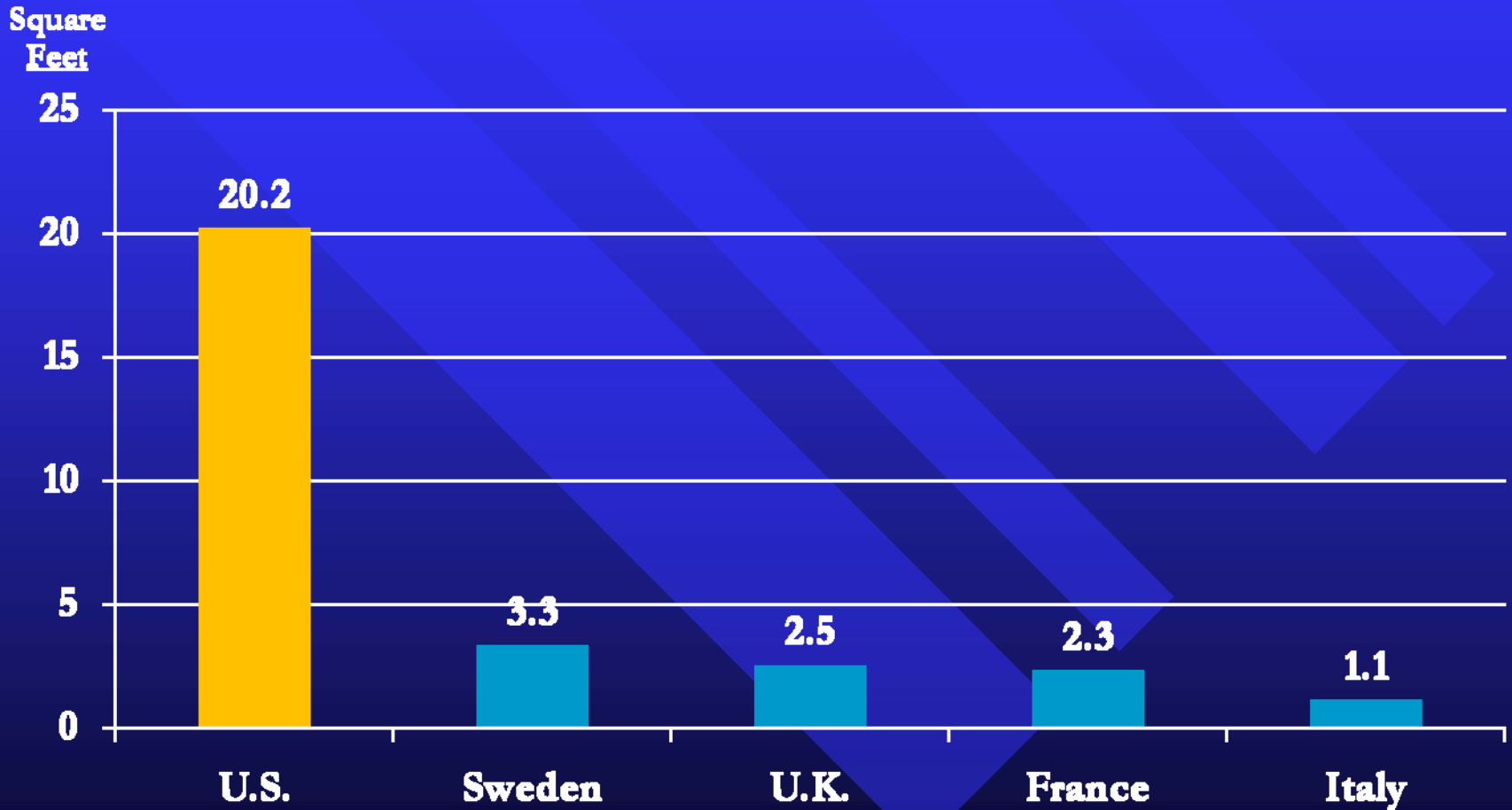
Population by age



SOURCE: Centers for Disease Control and Prevention, National Center for Health Statistics, *Health, United States, 2005*, figure 2.

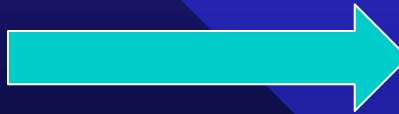
United States

Square Feet of Retail Space per Person



Source: Shopping Centers Today

Exemption Creep



Exemptions Narrow the Base

ADMISSION CHARGES
AIRCRAFT LEASES (FOREIGN)
AIRCRAFT SALES (FOREIGN)
ALTERATION OF GARMENTS
ALTERNATE ENERGY PROJECT
ANIMAL LIFE, FEED, SEEDS
ART TRANSFERS (ENTERTAINMENT)
ART WORKS
AUXILIARY SVCS TO MUSEUMS
BLOOD STORAGE UNITS
BRACELETS - POW
"BUDDY POPPIES"
CA GOLD MEDALLIONS
CA SCIENCE CENTER
CARBON DIOXIDE
CASH DISCOUNTS
CHARITABLE ORGANIZATIONS
COGENERATION TECHNOLOGY
COMMON CARRIERS
COMPONENTS – RAILROAD
CONSTRUCTION OUTSIDE CA
CONSUMER COOPERATIVES
CONTAINERS
CREDIT – TAX TO OTHER STATES
UNIVERSITY
CUSTOM COMPUTER PROGRAMS
CA
DELIVERY TO EXPORT PACKERS
DEMONSTRATION AND DISPLAY
DIESEL AND USE FUEL TAX
DIESEL FUEL – FARM & FOOD PROC
DONATIONS
ENDANGERED ANIMALS/PLANTS
EXCISE TAX ON FUEL
FACTORY BUILT HOUSING
FACTORY BUILT SCHOOL BLDGS
FARM EQUIPMENT
FEDERAL EXCISE TAXES
FINANCE CHARGES
FOOD PRODUCTS
FOOD – VENDING MACHINES

FOOD STAMP PURCHASES
FOREIGN GOVERNMENTS
FRIENDS OF LIBRARY
FUEL - ORGANIC
FUEL – AIR COMMON CARRIERS
FUNGIBLE GOODS
GAS, ELECTRICITY, WATER, STEAM
GROUND CONTROL STATIONS
HAY PRODUCERS
HEALTH/SAFETY MATERIALS
HOT FOOD – AIR CARRIERS
ICE OR DRY ICE
INDIAN TRIBAL TAXES
INSTALLATION LABOR
INTANGIBLE PERSONAL PROP
INTERSTATE/FOREIGN COMMERCE
LEASE OF MOTION PICTURES
LEASE, CERTAIN PROP EXCLUDED
LEASES OF MOBILE TRANS EQUIP
LEASES OF MOBILE HOMES
LEASES OF OCCASION. SALE PROP
LEASES PROPERTY – TAX PAID
LOANS TO CUSTOMERS
LOCAL TAXES

LODGING

MAILING LISTS
MASS COMMUTING VEHICLES
MASTER RECORDS & TAPES
MEALS TO ELDERLY/DISABLED
MEALS BY INSTITUTIONS
MEALS, ELDERLY CONDO
MEALS, LOW -INCOME ELDERLY
MEDICAL ID TAGS
MEDICAL HEALTH INFORMATION
MEDICATED FEED & WATER
MONETIZED/NON BULLION & COINS
MOTION PICTURE PROD PARTNERS
MOTION PICTURE PROD SVCS
MOTOR VEHICLE FUEL

MOTOR VEHICLE FEES & TAXES
MUSEUMS
NEW MOBILE HOMES
NEW TRAILERS
NEW VEHICLES – FOREIGN RES
NEW VEHICLES – OUT OF STATE
NEWSPAPERS/PERIODICALS
NONPROFIT – KID'S CLOTHES
NONPROFIT - AUCTION
NONPROFIT - HANDCRAFTED
NONPROFIT – THRIFT STORE
NONPROFIT – VETERANS' ORG
NONPROFIT – VETERAN MEALS
OCCASIONAL SALE - BUSINESS
OCCASIONAL SALES
OXYGEN DELIVERIES
PARENT-TEACHER ASSOC .
PARENT COOP NURSERY SCH
PASSENGER VEHICLES
PERIODICALS
PET ADOPTION
POLLUTION CONTROL
POULTRY LITTER
PRESCRIPTION MEDS

PRINTED SALES MATERIAL

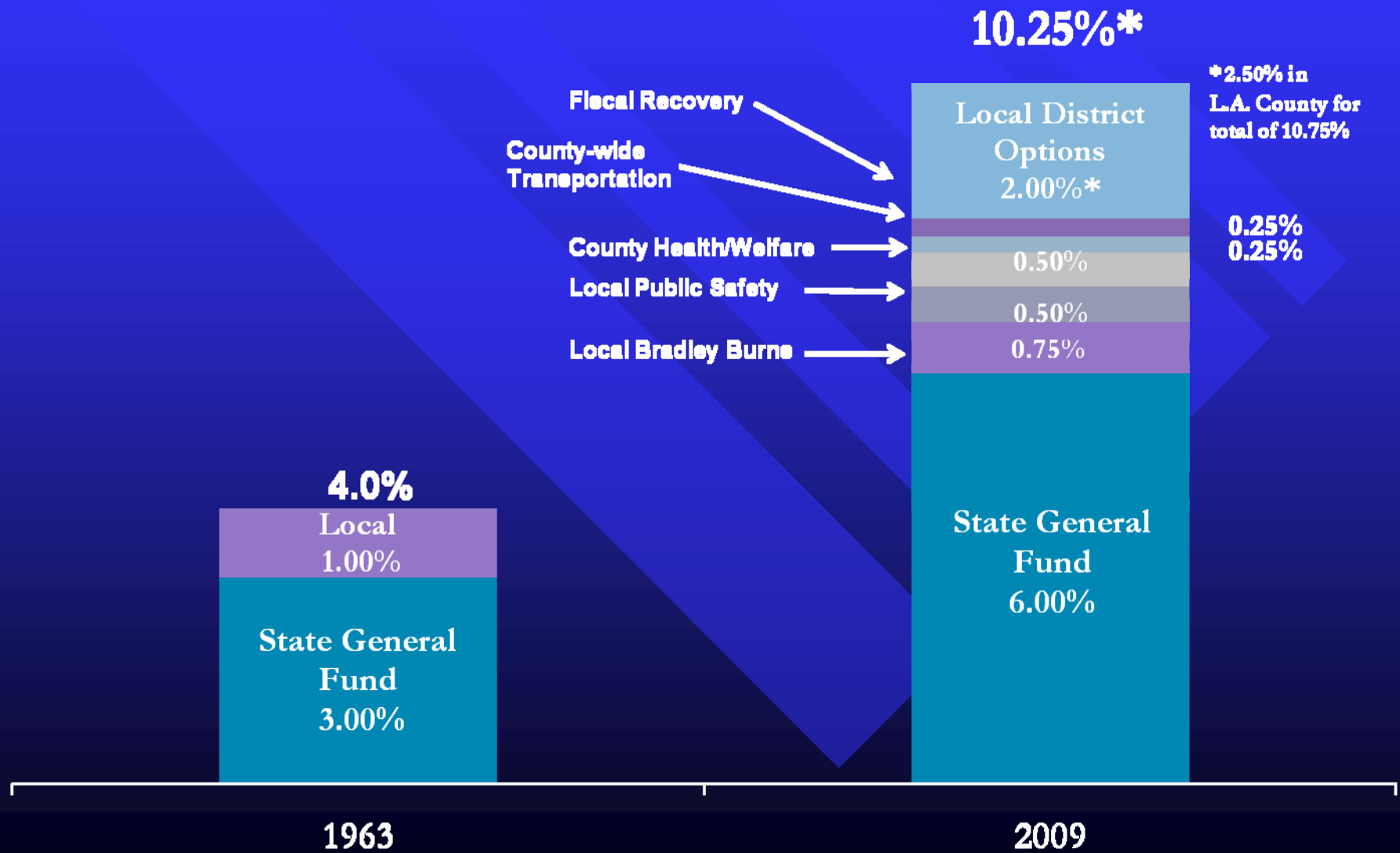
PRINTING MATERIALS
PROFESSIONAL HEALTH SVCS
PROPERTY LOANED – EDUC
PUBLIC PASSENGER VEHIC
PURCHASES – FOREIGN CTRY
PURCHASES FROM UNITED STS
RACEHORSE BREEDING
RAIL FREIGHT CARS
REAL PROPERTY
RELIGIOUS ORGANIZATIONS
RENTAL RECEIPTS – OUT OF CA
RENTAL – HOUSE FURNITURE
RENTAL – LINEN SUPPLIES
RETURNED MERCHANDISE

SALE & LEASEBACK ARRANGE
SALES FOR RESALE
SAN DIEGO AEROSPACE MUSEUM
SCHOOL YEARBOOKS
SECURITIES
SERVICES
SPACE FLIGHT PROPERTY
STATE GOVERNMENTS
STORAGE & USE
STUDENT MEALS
TAX-PAID PURCHASES RESOLD
TELEPHONE LINES/POLES
TELEPRODUCTION EQUIP
TIMBER HARVESTING EQUIP
TRAILERS – NEW OR USED
TRANSPORTATION CHARGES
TRANSPORTATION OF LANDFILL
TRAVEL ACCOMODATIONS
UNITED STATES SALES
USE OF PROPTY HELD FOR SALE
USED FLOATING HOMES
USED MOBILE HOMES
VEHICLE MODS - HANDICAPPED
VEHICLES LOANED TO

VEHICLES PURCHASED OUT OF

VEHICLES SOLD TO FAMILY
VEHICLES SOLD TO FOREIGN RES
VEHICLES SOLD TO LESSEE
VEHICLES – SAME OWNER
VENDING MACHINE SALES
VENDING MACHINE SALES - FOOD
VESSELS
VETERINARIANS
WATER COMMON CARRIERS
WATERCRAFT
WHEELCHAIRS & WALKERS
WORTHLESS ACCOUNTS
YOUTH ORGANIZATIONS

The Narrower the Base, the higher the Rate.



California's Economy in the 21st Century



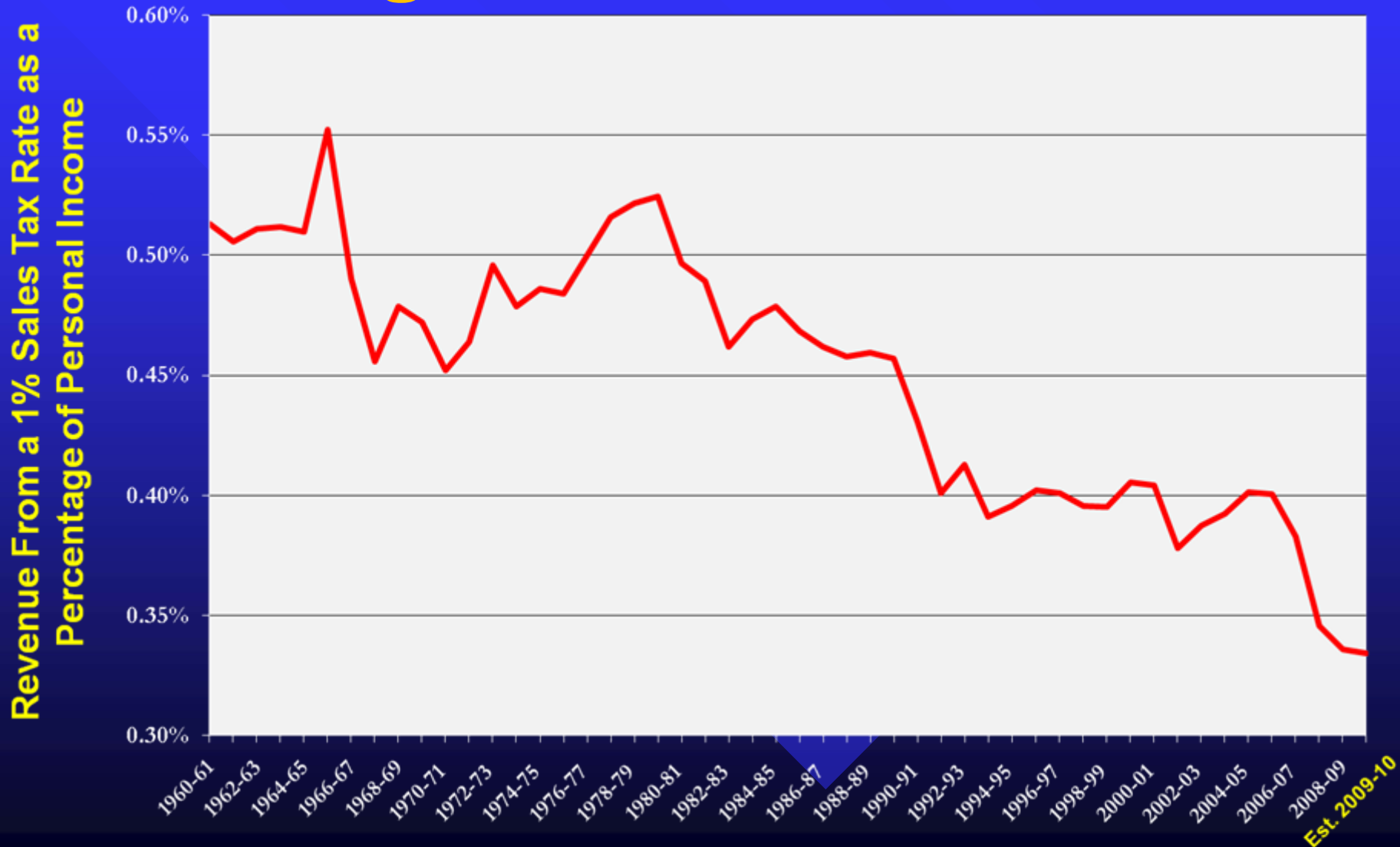
- Software
- Information Services
- High Tech Manufacturing
- Entertainment
- Tourism
- Professional & Business Services

California Economy On Which Sales Tax Is Levied

Goods to the Ultimate Consumer



Sales Tax Collections as a Percentage of Personal Income





SUMMARY:

- Modest gains until after 2012/2013.
- Long Term Growth less robust than in Past.
- City's Challenge:
 - Keep up with evolving retail trends
 - Diversification of tax base
 - Statewide Tax Reform is Essential